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FINANCIAL DIGEST

MANUFACTURERS HANOVER TRUST

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ALL THAT GLITTERS . . .

The sharp drop in gold prices last week following its equally spectacular runup brings to mind an event that occurred many years ago—tulipomania. Three hundred sixty years ago tulips were introduced into the Netherlands from Turkey, and the Dutch were immediately captivated by their beauty. Splendid to look at, with wide varieties of different values, the tulip was a natural for the Dutch people to grow—and speculate in, as well. The Netherlands at that time had just the right atmosphere for speculation. Dutch overseas trade was on the rise, bringing large amounts of gold and silver into the country.

Tulips became known and prized throughout Europe. Common enough, their value skyrocketed when a tulip's color changed suddenly, a process known as "breaking." This happened without warning and, in fact, resulted from a virus. Multicolored in nature, these unusual tulips were so much in demand that their prices began to rise, and people began buying them not for display, but to resell at a profit. Thus the object which at one time was valued for its beauty alone had become a commodity that buyers had no intention of using, but were holding in the expectation that someone else would want to buy it at a higher price.

This soon developed into a mania. People bought signed contracts that promised deliveries of real bulbs at some future time. By 1636 the demand for tulips was so great that regular markets for their sale were set up on the stock exchanges of Amsterdam, Rotterdam, Haarlem, and other towns. Prices continued to soar until early in 1637, when a growing number of people began to fear that the bubble might burst. The very anticipation of such a development changed the balance between buyers and sellers, with the result that on February 3, 1637, a buyer paid less for a bulb than it had cost the seller. Though other sales were at first unaffected, panic quickly took hold. Prices of bulbs fell immediately and never rose again. The tulip market had crashed spectacularly, affecting the fortunes not only of the participants, but of the Dutch economy as well.

Although gold would seem to be a more significant commodity in world commerce these days than tulips were 3½ centuries ago, a steep plunge in gold prices, were it to occur, would not have much of an effect on U.S. economy. This is because relatively few domestic resources are today involved in the production and use of gold. On the other hand, were gold prices to turn around and resume their steep upward climb, there could be a significant impact. This is because of the spillover of speculation into other commodities that began early last week, while gold's price was still climbing. Prices of such other precious metals as silver and platinum had already gone up in tandem with—if not faster than—gold, but prices of such other commodities as copper, lead, and zinc began to move, too. What is more, rumor had it that some farmers were beginning to withhold agricultural commodities from the marketplace, anticipating higher prices from this spillover as well.

. . . COULD AFFECT INVENTORIES

It could very well be that the speculation that has already occurred has begun to influence business inventory policies. In August, inventories of materials and supplies rose rapidly even as stocks of finished goods declined. The share of manufacturers' inventories now held in materials and supplies totals 34.7 per cent—the highest in over a year. If this trend continues, it could eliminate one important difference between the current recession and the 1973-75 downturn: conservative inventory policies.

Because this downturn was so widely anticipated, business men kept a close watch on inventories, with the result that stocks in most industries are today not significantly out of line with sales. But if businessmen begin to deliberately stockpile commodities as they did during 1973 and 1974, they will get to a point where significant workdowns are necessary—and that could turn the current mild recession into something more severe.

SELECTED FEDERAL RESERVE DATA

(Weekly Averages of Daily Figures—Millions of Dollars)

	Week Ending 10/3/79	Change Since Week Ago	Change Since Year Ago
Reserve Bank Credit:			
U.S. Gov'ts and Agencies Owned Outright & RPs	123,516	+ 144	— 216
Member Bank Borrowings	1,119	— 42	— 167
Float	5,483	+ 320	+ 761
Total Reserve Bank Credit	135,472	+1,284	+ 2,689
Treasury Deposits with Federal Reserve Banks	4,962	+ 409	—10,176
Currency Outside Banks	107,927	+ 123	+ 9,877
Member Bank Reserves:			
Required	41,767	+ 245	+ 3,021
Excess (Deficiency)	325	+ 232	+ 202
Total Reserves Held	42,092	+ 477	+ 3,223
Net Borrowed Reserves	617	— 271	— 338
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	83,286	+1,305	+ 2,193
		r-Revised	
	9/26/79		
Money Supply ($ Bil., SA) M1	377.8	+ 0.8	+4.7%
Money Supply ($ Bil., SA) M2	932.8	+ 1.5	+7.6%

NEW YORK MONEY MARKET

Offering Rates 10/5/79	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	10.62%	10.57%	10.24%
*Federal Agencies	11.25	11.45	10.80
*Project Notes—Tax Free (46% Taxable Equivalent)	9.25	9.62	10.37
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
*Secondary Market—Prime	12.45	12.75	

‡Finance Company Paper—Prime

5- 14 days	11.00%
15- 29 days	11.38
30- 59 days	11.65
60-179 days	11.65
180-270 days	10.38

‡Industrial Paper—Prime

30- 89 days	11.65%
90-120 days	10.00

‡*Bankers' Acceptances

Nov.	11.85%
Dec.	11.85
Jan.	11.90
Feb.	11.90
Mar.	11.70
Apr.	11.70

†Federal Funds Effective Rate 11.65%

‡Discount Basis. *Subject to Availability. †Estimated.

SELECTED BUSINESS INDICATORS

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'79	$ 2,330	$ 2,292	$ 2,088
Gross National Product (1972 Dollars)*	2nd Q'79	$ 1,422	$ 1,431	$ 1,383
Percent Change, Annual Rate	2nd Q'79	—2.3%	1.1%	8.7%
Change in Consumer Prices (all urban consumers)*	Aug. '79	13.2%	12.0%	7.2%
Change in Producer Prices*	Sept. '79n	16.8%	14.4%	9.6%
Civilian Employment (Thousands of Persons)†	Aug. '79	96,900	97,210	94,723
Unemployment as % of Civilian Labor Force†	Aug. '79	6.0%	5.7%	5.9%
Personal Income*	Aug. '79	$ 1,938	$ 1,930	$ 1,741
Leading Indicators Composite Index (1967=100)†	Aug. '79n	139.1	139.1	142.0
Industrial Production Index (1967=100)†	Aug. '79	150.9	152.6	148.0
Net Change in Consumer Instalment Credit†	July '79	$ 2.44	$ 2.56	$ 3.47
U.S. Merchandise Trade Balance†	Aug. '79	—$ 2.36	—$ 1.11	—$ 1.84
Plant and Equipment Expenditures*	4th Q'79	$179.56(a)	$174.74(a)	$163.96
Private Housing Starts (Thousands of Units)*	Aug. '79	1,783	1,791	2,004
New Construction Expenditures*	Aug. '79n	$ 229.2	$ 232.7	$ 210.9
Total Business Inventories†	July '79	$ 413.8	$ 406.0	$ 363.0
Total Business Sales†	July '79	$ 287.5	$ 283.4	$ 252.7

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

SHORT TERM PAPER OUTSTANDING

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CDs Weekly Reporting Banks			
Nationwide (9/26/79)	**87,772**	+1,052	— 592
New York City (10/3/79)	**18,427**	+ 319	— 6,351
Commercial Paper (9/26/79)	**104,949**	+1,178	+30,181

BANK LOANS

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/26/79)	**152,256**	+ 262	+24,937
New York City (10/3/79)	**45,519**	+ 181	+ 8,247
	Total Loans Gross Adjusted		
	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/26/79)	**383,910**	—3,524	+60,080
New York City (10/3/79)	**88,457**	+1,643	+12,488

SECURITY MARKETS

	Friday 10/5/79	Change Since Week Ago	Change Since Year Ago
U. S. Governments, Closing Bid Prices:			
90-Day Bills (Discount Basis)	**10.72%**	+ .66	+ 2.54
180-Day Bills (Discount Basis)	**10.65**	+ .57	+ 2.25
Longest Bills (Discount Basis)	**10.75**	+ .89	+ 2.48
10⅛s 9/30/81	**99.18**	N.A.	
9¾s 9/30/83	**99.25**	N.A.	
9¼s 5/15/89	**98.00**	— 31/32	
8¾s 8/15/94	**93.29**	— 29/32	
9⅛s 5/15/09	**97.22**	— 39/32	
Municipals:			
Bond Buyer—20 Bond Index* (10/5/79)	**6.64%**	+ .08	— .57
Blue List Total ($ Million)	**$ 814**	+$ 61	+$ 137
30-Day Visible Supply ($ Million)	**$2,737**	+$ 276	+$1,001
Total	**$3,551**	+$ 337	+$1,138
Corporates:			
Moody's Aa Composite (10/5/79)	**9.97%**	+ .14	+ .99
Money Mgr.—30-Day Supply ($ Million)	**$2,966**	—$ 205	+$1,633
Stocks:			
Dow-Jones Averages			
Industrials	**897.61**	+ 18.94	+ 17.59
Transportation	**264.80**	+ 4.33	+ 17.92
Utilities	**108.12**	+ 1.22	+ 1.83
65 Stocks	**314.58**	+ 5.70	+ 10.38
Standard and Poor's 500 Stocks	**111.27**	+ 1.95	+ 7.75
N.Y.S.E. Composite Index	**63.43**	+ 1.16	+ 5.10
N.Y.S.E. Avg. Daily Vol. for Week (000's)	**35,920**	+ 2,936	+11,582

*46% Taxable Equivalent 12.30%

INTERNATIONAL RATES

	Friday 10/5/79	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	**12.25%**	11.75%
1 month	**12.63**	12.25
3 months	**13.25**	11.19
6 months	**13.25**	12.88
1 year	**12.50**	12.75
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	**10.30%**	10.27%
Long Term (10 to 15 yrs.)	**10.20**	10.17
FOREIGN EXCHANGE SPOT RATES New York Opening (in dollars)		
Belgium	**.035075**	.03549
Canada	**.8582**	.8616
France	**.2411**	.2439
Germany	**.5696**	.5730
Italy	**.001227**	.001224
Japan	**.004454**	.004467
Mexico	**.04389**	.04389
Netherlands	**.5117**	.5169
Switzerland	**.6331**	.6441
U.K.	**2.1866**	2.1987